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**By Messenger and D.P.U. efilng**

August 15, 2008

Mary L. Cottrell, Secretary  
Commonwealth of Massachusetts  
Department of Public Utilities  
One South Station  
Boston, MA 02110

Re: Petition of Bay State Gas Company for Expanded Funding for Energy Efficiency Programs and Recovery of Energy Efficiency Related Costs for the Period Commencing September 1 and Ending December 31, 2009; D.T.E. 04-39

Dear Madam Secretary:

Bay State Gas Company ("Bay State" or the "Company") submits the enclosed Petition for Expanded Funding for Energy Efficiency Programs and Recovery of Energy Efficiency Related Costs for the Period Commencing September 1 and Ending December 31, 2009 (the "Petition").

Specifically, today's filing contains the Company's Petition; the prepared testimony of the Company's witness, Derek M. Buchler; and related schedules in support of proposed energy efficiency programs and expanded funding therefore for the upcoming heating season and the remainder of the 2009 calendar year. The testimony and supporting schedules filed herewith demonstrate the cost-effectiveness of the Company's proposal and that the implementation of the energy efficiency programs proposed herein will result in increased opportunities for its customers. As required in the Department's Letter of July 25, 2008 regarding the need to increase funding for residential programs for the upcoming heating season, the Petition proposes expanded funding for the Company's residential energy efficiency efforts that are operated pursuant to the Settlement Agreement approved in Bay State Gas Company, D.T.E. 04-39 (2004).

Bay State's filing also seeks to expand its commercial and industrial ("C&I") efforts in addition to expanding funding for residential heating programs. In this regard, the Company's filing also directly follows up on the Department's August 7, 2008 request for proposed energy efficiency plans for effect during the interim period after the April 30, 2009 expiration of the D.T.E. 04-39 pre-approval period and before January 1, 2010 (which is the date that new, three-year energy efficiency programs are to be launched in accordance with Chapter 169 of the Acts of 2008, an Act Relative to Green Communities (the "Act")). Bay State's Petition is consistent with established Department practice and will allow for the offering of well-operating, pre-approved programs -- without interruption in program delivery -- and providing a longer horizon for proposed program changes to take effect as the Company works in 2009 with interested parties to develop its energy efficiency plan for effect on January 1, 2010 as mandated by the Act.

As such, in addition to the C&I matters discussed above, the Company is also providing this Petition addressing all of calendar year 2009 at the same time as it addresses the Department's request for expanded residential funding for 2008-2009 heating season for administrative efficiency and to satisfy all Department directives in a comprehensive, coordinated and timely fashion.

Should the Department have any questions regarding this filing, please do not hesitate to contact the undersigned at (800) 292-5019 or either of our attorneys, Patricia French, Esq. at (508) 836-7394 or Emmett E. Lyne, Esq. at (617) 556-3885.

Very truly yours,



Derek M. Buchler  
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**THE COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF PUBLIC UTILITIES**

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BAY STATE GAS COMPANY

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D.T.E. 04-39

Petition  
of  
Bay State Gas Company  
for Expanded Funding for Existing Residential Energy  
Efficiency Programs and Recovery of Energy Efficiency Related Costs in the Period  
Commencing  
September 1, 2008 and Ending December 31, 2009

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COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 04-39

**Introduction and Background on Existing Programs**

1. Petitioner Bay State Gas Company (“Bay State” or the “Company”) is a gas company organized under the laws of the Commonwealth of Massachusetts, engaged in the business, among others, of selling and distributing gas at retail in Massachusetts.

2. The design, implementation, and cost recovery of the Company’s energy efficiency (also referred to as demand-side management (“DSM”)) programs are subject to the jurisdiction of the Department of Public Utilities (“Department”) under the provisions of M.G.L. c. 164 and Chapter 169 of the Acts of 2008, an Act Relative to Green Communities (the “Act”).

3. By way of background, the Company currently operates comprehensive energy efficiency programs targeting the residential and commercial & industrial (“C&I”) customer sectors. The latter includes master-metered multifamily buildings and customers. These programs are operated pursuant to the Settlement Agreement approved in Bay State Gas Company, D.T.E. 04-39 (September 13, 2004) (the “D.T.E. 04-39 Settlement”). The D.T.E. 04-39 Settlement built upon the energy efficiency programs developed and approved in the Company’s previous DSM settlements in Bay State Gas Company, D.T.E. 01-27 (July 19, 2001 (“D.T.E. 01-27 Settlement”) and extended on an interim basis by the Department’s April 21, 2004 approval of the Company’s Motion for the Interim Continuation of Existing Energy Efficiency Programs (“Interim Extension”) filed on March 30, 2004. The D.T.E. 01-27 Settlement built upon the energy efficiency programs developed and approved in the Company’s previous DSM settlements: Bay State Gas Company, D.P.U. 91-272 (“D.P.U. 91-272 Settlement”); Bay State Gas Company, D.P.U. 95-117 (the “D.P.U. 95-117 Settlement”); Bay State Gas Company, D.P.U. 96-76 (“D.P.U. 96-76 Settlement”); and Bay State Gas Company, D.P.U. 96-98 (“D.P.U. 96-98 Settlement”).



4. The Company has kept the Department and other interested parties apprised of its progress in implementing its energy efficiency programs pursuant to the D.T.E. 04-39 Settlement in a series of periodic reports as required under such Settlement, including six-month, nine-month and annual reports, all in the templates established in the D.T.E. 04-39 Settlement. Indeed, the Company has used this annual reporting template in Attachment A of the testimony of its witness in this proceeding, Mr. Derek M. Buchler, in order to set forth its proposal for expanded funding and program enhancements through the end of calendar year 2009 (“CY-2009”). The Company’s residential and C&I programs have been well-accepted and the Company is coordinating implementation of its efforts targeting low-income customers with the non-profit, weatherization assistance program agencies in its service territories, all as provided in the D.T.E. 04-39 Settlement.

**Purpose of this Filing**

5. In this filing, the Company requests expanded funding through the end of CY-2009 for residential and C&I, including multifamily, energy efficiency efforts in response to the Department’s recent directives. Specifically, today’s filing contains this Petition; the prepared testimony of the Company’s witness, Derek M. Buchler; and related schedules in support of the Company’s proposed energy efficiency programs and expanded funding through the remainder of CY 2009. The testimony and supporting schedules filed herewith demonstrate the cost-effectiveness of the Company’s proposal and that the implementation of the energy efficiency programs proposed herein will result in increased opportunities for customers. As explicitly required in the Department’s Letter of July 25, 2008 regarding the need to increase funding for residential programs for the upcoming heating season, the Company proposes expanded funding for the Company’s residential energy efficiency efforts that are operated pursuant to the D.T.E. 04-39 Settlement. Further, Bay State’s filing reflects the Company’s desire to enhance its C&I efforts in addition to expanding funding for residential heating programs. In this regard, the Company’s

filing also directly follows up on the Department's August 7, 2008 request for proposed energy efficiency plans for effect during the interim period after the April 30, 2009 expiration of the D.T.E. 04-39 Settlement pre-approval period and before January 1, 2010 (which is the date that new, three-year energy efficiency programs are to be launched in accordance with the Act). Bay State's Petition is consistent with established Department practice and will allow for the offering of well-operating, pre-approved programs (with enhancements based on experience and current market conditions) -- without interruption in program delivery -- as the Company works in CY 2009 with interested parties to develop its energy efficiency plan for effect on January 1, 2010 as mandated by the Act. The Company is also providing this Petition addressing all of CY 2009 at the same time as it addresses the Department's request for expanded residential funding for 2008-2009 heating season for administrative efficiency and to satisfy all Department directives in a comprehensive, coordinated and timely fashion. Approval of this Petition through CY 2009 will allow the proposed program enhancements to gain momentum and acceptance in the marketplace (by both contractors and customers), and thereby increase the likelihood of success in achieving higher degrees of energy efficiency/savings and a greater number of participants.

### **Procedural Background**

6. On July 16, 2008, the Department of Energy Resources ("DOER") filed a letter with the Department requesting that the Department consider an immediate increase in funding for energy efficiency programs targeted at residential heating end-uses, stating that "we must do all we can to help residents cope with what will likely be high heating bills this winter." The Department agreed that there is an urgent need to expand funding for existing residential gas and electric efficiency programs in order to respond to the potential for high heating costs in the coming months. Accordingly, by letter dated July 25, 2008, the Department required all energy efficiency Program Administrators to increase spending for residential heating programs effective as soon as

feasible, and covering the 2008 winter season (the “July 25, 2008 Letter”).<sup>1</sup> Additionally, the Department held a technical conference on July 29, 2008 to discuss issues and concerns that the Program Administrators, the Attorney General and non-utility parties may have with implementing funding increases. Following this Technical Conference by Memorandum of the Hearing Officer dated August 1, 2008, the Department required that all Program Administrators submit their proposals for expanded funding for residential programs on or before August 15, 2008. The Company is filing this Petition in accordance with these directives and this Petition and the attached materials contain the Company’s proposed expanded heating season program budgets, which will allow for the implementation of a maximum achievable level of cost-effective expenditures on residential heating programs for the remainder of the 2008-2009 heating season.<sup>2</sup> As noted above, and as detailed below, however, Bay State is also using the unique opportunity accorded by this requirement to address other CY-2009 energy efficiency matters in a comprehensive and coordinated fashion.

**Extending Current Programs, with Enhancements Based on Experience and Current  
Market Conditions, Creates Opportunities for Customers and is Consistent with  
Department Precedent and the Act**

7. In accordance with the Department’s September 13, 2004 approval of the D.T.E. 04-39 Settlement, the current pre-approval period for the Company’s energy efficiency programs ends on April 30, 2009. The Act requires all gas and electric distribution companies and municipal aggregators (together, “Program Administrators”) to file three-year energy efficiency plans for new programs starting in 2010. This process begins with a filing by Program Administrators of their energy efficiency plans with the newly established Energy Efficiency Advisory Council by April

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<sup>1</sup> The Department limited the funding increases covered in this letter to residential and low-income programs at this time. July 25, 2008 Letter at p.1.

<sup>2</sup> As discussed at the July 29, 2008 Technical Conference, the Company notes that achievable savings are necessarily limited by infrastructure matters (e.g. the level of qualified contractors in the field) and the need to maintain quality and safety controls.

30, 2009.<sup>3</sup> In its recent August 7, 2008 letter to Program Administrators (the “August 7, 2008 Letter”), the Department stated that it expects that Program Administrators will use program implementation in 2009 as a transition year leading into the implementation of expanded energy efficiency programs under the Act, beginning in 2010.

8. In light of these factors, the Department found a need to expedite the process of filing and review of all 2009 energy efficiency plans. Accordingly, in its August 7, 2008 Letter, the Department required Program Administrators, such as the Company, that oversee multi-year gas energy efficiency plans that expire in April 2009, to file proposals to extend current plans through December 31, 2009, with the Department on or before, December 1, 2008. By this Petition, the Company is directly responding to the Department’s August 7, 2008 Letter and is seeking an extension of its currently-approved energy efficiency efforts through CY-2009, along with expanded funding and implementation enhancements for its residential and C&I energy efficiency efforts, all as described in Mr. Buchler’s testimony and supporting schedules.

9. In support of this proposal, the Company notes that it fully expects to be engaged in productive planning discussions with interested parties (such as the DOER, the Attorney General, and the low-income alliance, LEAN) prior to any filing under the Act for effect on January 1, 2010. However, it is likely that, even if such efforts result in a settlement or a near consensus proposal, the Department would not be able to act on such proposal prior to April 30, 2009, which is the date the D.T.E. 04-39 Settlement pre-approval period ends. As work on a plan for effect on January 1, 2010 continues, approval of this Petition will ensure that the Company is able to continue to offer its energy efficiency efforts on an uninterrupted basis during CY-2009. Specifically, the Company notes the following considerations in support of its request for continuation of programs through CY-2009:

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<sup>3</sup> The Act requires Program Administrators to file the first three-year energy efficiency plans with the Department by October 31, 2009. Administration of the programs under the three-year plans commences on January 1, 2010.

(a) Throughout CY-2009, the Company proposes to continue its collaboratively-developed, Settlement-based residential, low-income, C&I and market transformation programs. Accordingly, approval of this Petition will not result in diminished services to customers during CY-2009. Moreover, the program enhancements described in the testimony of Mr. Buchler are the type of enhancements expressly contemplated in the D.T.E. 04-39 Settlement, are based on in-the-field experience, work with other LDCs, low-income agencies, DSM contractors and the DOER--and will further enhance service to customers. All of the above also set in motion the initial steps of developing and expanding comprehensive energy efficiency programs as contemplated in the Act.

(b) Extension of current programs throughout CY-2009 is further warranted given that the energy efficiency programs operated pursuant to the D.T.E. 04-39 Settlement (including regional market transformation initiatives) are currently operating well in the field and the Company, working with the low-income weatherization assistance provider network, has the infrastructure in place to continue such efforts during CY-2009.

(c) As set forth in the testimony of Mr. Buchler, the Company's energy efficiency effort remains robustly cost-effective.

10. The Company's request for continuation of efforts throughout CY-2009 is consistent with (a) the Department's August 7, 2008 letter; (b) established DSM practice before the Department and (c) the Department's long-standing goal of continuity of DSM services. *See e.g. The Berkshire Gas Company*, D.T.E. 04-38 (Stamp Order of April 21, 2004 Approving Motion for Interim Continuation), *The Berkshire Gas Company*, D.T.E. 01-29 (Stamp Order of April 26, 2001 approving Motion for Interim Continuation); *Fall River Gas Company*, D.T.E. 01-30 (Stamp Order of April 26, 2001 approving Motion for Interim Continuation); *NSTAR Gas Company*, D.T.E. 01-26 (Stamp Order of April 26, 2001 approving Motion for Interim Continuation); *Commonwealth Gas Company*, D.T.E. 99-86 (Letter Order of August 2, 2001 approving Motion for Interim Continuation); *The Berkshire Gas Company*, D.T.E. 98-93 (August 2, 2000 Letter Order approving Motion for Interim Continuation);

Commonwealth Gas Company, D.T.E. 99-86 (Stamp Order of December 29, 1999 approving Petition for Interim Extension); Commonwealth Gas Company, D.T.E. 98-92 (Stamp Order of October 28, 1998 Approving Motion for Interim Continuation); Fall River Gas Company, D.P.U. 97-62 (Stamp Order of June 26, 1997 approving Motion for Interim Continuation); Commonwealth Gas Company, D.P.U. 94-128 (Letter Order of October 26, 1995 approving Motion for Interim Continuation); The Berkshire Gas Company, D.P.U. 94-168 (September 26, 1994 approval of Motion for Interim Continuation); *see also* Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 91-234-B at 37 (1994) (program continuity is an important goal in utility DSM efforts). *See also* Cambridge Electric Company/Commonwealth Electric Company, D.P.U. 92-218, at 18 (1993). The Company is filing this petition at this time in order to allow the Department adequate time to review and approve this proposal well prior to the expiration of the current D.T.E. 04-39 Settlement pre-approval period and given the unique opportunity to coordinate this filing in a comprehensive, administratively efficient and cost-effective way with the mandatory 2008-2009 heating season funding increases.

**Proposed Budgets and Cost Recovery for Effect Through CY-2009**

11. A key element of the Company's proposal is the maintenance of the existing energy efficiency programs (including market transformation initiatives) approved in the D.T.E. 04-39 Settlement through CY-2009 at reasonably higher program expenditure levels as are currently approved in light of current market conditions and the increased demand for energy efficiency services. Attachment A of Mr. Buchler's testimony provides the details of the levels of expenditures that the Company proposes be in effect for the period of September 1, 2008 through December 31, 2009. In particular, Attachment A demonstrates several important characteristics of the Company's proposal:

(a) except as noted in the schedules to Attachment A, the design and rebate levels for existing energy efficiency programs will remain unchanged during the pre-approval Period;

(b) the Company is proposing to increase certain residential and C&I rebate levels in

order to make it easier for customers interested in conserving energy to participate in the Company's programs by lowering the financial barriers that currently prohibit certain customers from implementing energy efficiency products and services;

(c) the overall level of funding for energy efficiency program activities during the period of September 1, 2008 through December 31, 2009 is higher than, but reasonably coordinated with, the current Program Year Five level of funding as approved in the D.T.E. 04-39 Settlement;

(d) the Company will continue to work with the low-income delivery network in the delivery of its low-income energy efficiency program;

(e) the methodology for calculating financial incentives and lost margin recovery (subject to the Rolling Period Methodology) developed and approved in the D.T.E. 04-39 Settlement and the method for determining financial incentives that was developed and approved in the Department's generic proceeding D.T.E. 98-100 and adopted in the D.T.E. 04-39 Settlement will continue to be in effect for all savings achieved through CY-2009;

(f) costs incurred in implementing and delivering the Company's energy efficiency programs through CY-2009 will continue to be recovered through the Company's existing, sector-specific Conservation Charge ("CC") mechanism, which is a component of the Local Distribution Adjustment Clause ("LDAC") and the applicable Local Distribution Adjustment Factor ("LDAF"). Accordingly, while CC decimals will tend to rise once all costs and reconciliations are factored in, approval of this Petition will not result in any undue billing impacts for the Company's customers and increased services will be available. Specifically, the annual cost to an average residential customer, as filed in the Company's June 30, 2008 filing, for all applicable programs was \$15.26. If this Petition is approved, the annual cost to a residential customer will be \$18.91, a net increase of \$3.65 per year, or an additional \$0.30 per month on average

#### **Detailed Discussion of The Schedules Supporting the Company's Proposal**

12. The Company emphasizes that Attachment A of Mr. Buchler's testimony is expressly

patterned on the collaboratively-developed Annual Report template set forth in the D.T.E. 04-39 Settlement and successfully used for the past four years by the Company and numerous other Program Administrators. Use of this format should enhance and facilitate the Department's review. In particular, Attachment A contains the following schedules, each of which schedules is in the format established in the D.T.E. 04-39 Settlement:

Schedule 1 – Actual Program Expenditures Participants and Savings for the period May 1, 2007 through April 30, 2008. This schedule has not changed since the Company's June 30, 2008 Annual Report except for the correction of a typographical error in Line 10, Participation column.

Schedule 2 – Residential Energy Efficiency Program Changes. This schedule updates the schedule filed in the Company's June 30, 2008 Annual Report and sets forth the residential program enhancements proposed by the Company, which in general increase the level of Company rebates in well-established, pre-approved programs in order to facilitate participation for the Company's many interested customers. Many of the program enhancements are based on discussions with DOER, other LDCs, DSM contractors and in-the-field experience. Because cost-effectiveness is measured using the D.T.E. 98-100 Total Resource Cost Test, which factors in all program costs regardless of the amount underwritten by the sponsoring utility, increasing such rebate levels does not negatively impact cost-effectiveness.

Schedule 3 – Low-Income Energy Efficiency Program Changes. This schedule updates the schedule filed on June 30, 2008 and sets forth the residential low-income program enhancements proposed by the Company, which in general increases the pool of customers eligible to participate in the program. This program enhancement is based on discussions with DOER, other LDCs, the CAP agencies in the Company's service territory, DSM contractors and in-the-field experience. Because cost-effectiveness is measured using the D.T.E. 98-100 Total Resource Cost Test, which factors in all program costs regardless of the amount underwritten by the sponsoring utility, increasing such rebate levels does not negatively impact cost-effectiveness.



Schedule 4 – C&I Energy Efficiency Program Changes. This schedule updates the schedule filed in the Company's June 30, 2008 Annual Report and sets forth the C&I and master-metered multifamily program enhancements proposed by the Company, which in general increase the level of Company rebates in well-established pre-approved programs in order to facilitate participation for the Company's many interested customers. Because cost-effectiveness is measured using the D.T.E. 98-100 Total Resource Cost Test, which factors in all program costs regardless of the amount underwritten by the sponsoring utility, increasing such rebate levels does not negatively impact cost-effectiveness.

Schedule 5 – Energy Efficiency Forecasted Program Budget for the Period May 1, 2008 through December 31, 2009. This schedule updates the schedule filed with the Company's June 30, 2008 Annual Report and provides for expanded funding for the Company's residential heating efforts consistent with the Department's requirements for the upcoming heating season and throughout CY-2009, as well as expanded C&I funding. The increased funding levels set forth in Schedule 5 were determined after the Company reviewed historic data, held informal discussions with interested parties and other LDCs, reviewed infrastructure constraints and examined quality control concerns. The proposed increase represents an annualized increase of twenty four percent (24)% of the residential and low-income budget set forth in the Company's June 30, 2008 Annual Report and thirty two percent (32%) of the C&I budget.

Schedule 6 – Benefit Cost Ratios (BCRs) by Program for the Period May 1, 2008 through December 31, 2009. Given the very robust benefit cost ratio of 3.82 for the Company's energy efficiency effort set forth in the Company's June 30, 2008 Annual Report, this schedule has not been updated. The incremental benefit of achieving greater precision in the projected BCR did not, in the Company's judgment, merit the expense of retaining its outside vendor and preparing a new BCR analysis for this filing (which filing is being conducted on an expedited basis consistent with the Department's August 1, 2008 procedural schedule). The increased funding for measures

proposed herein for programs already found to be cost-effective in the D.T.E. 04-39 Settlement would not have a material negative impact on the numbers set forth in Schedule 6 and may serve to increase BCRs somewhat because increased savings will be achieved and the Company has not proposed proportionately higher expenditures in administrative, marketing and evaluation costs. The Company emphasizes that, because the Total Resource Cost test mandated by the Department in D.T.E 98-100 is used for screening (which test accounts for all program implementation costs regardless of the party making the payment), increasing rebate levels does not negatively effect cost-effectiveness in any material way; and should lead to enhanced participation and greater savings.

Schedule 7 – Performance Incentives for the Period May 1, 2008 through April 30, 2008.

The Company has proportionately adjusted forward-looking performance incentives to reflect the expanded funding proposed herein. These forward-looking goals for the period ending December 31, 2009 are set forth in Schedule 7. The Company notes that, as required by the D.T.E. 04-39 Settlement, this performance incentive utilizes the Department's D.T.E. 98-100 Final Guidelines with respect to incentives.

**Other Matters**

13. The Company hereby seeks to be afforded the discretionary flexibility, throughout the end of CY-2009, to expend up to ten percent (10%) in excess of the amounts set forth in Attachment A of Mr. Buchler's testimony without the need for advance Department approval, in the event market conditions allow for such additional expenditure. This proposed flexibility should heighten administrative efficiency and, at the same time, preserve the Department's need to oversee implementation and protect against excessive billing impacts.

14. Building upon the success of the D.T.E. 04-39 Settlement, the Company would be pleased to participate in settlement discussions or technical sessions at any time found to be convenient by the Department and other interested parties. The Company appreciates the

Department's expedited schedule for review in this proceeding. The goals and budgets set forth herein are based on an assumption of effectiveness on September 1, 2008. If that date is not achieved, such goals and budgets would be appropriately adjusted.

WHEREFORE, your petitioner, Bay State Gas Company hereby respectfully requests as follows:

(a) That the Department approve expanded funding and program enhancements for the Company's energy efficiency programs for effectiveness during the period commencing September 1, 2008 and ending December 31, 2009 as set forth herein and in Attachment A of Mr. Buchler's testimony;

(b) That the Department approve the Company's recovery of the costs (including recovery of incentives and lost margins) of such energy efficiency programs through the CC component of the LDAF;

(c) That the Department approve and ratify the Company's ongoing implementation of the D.P.U. 04-39 Settlement in all other respects; and

(d) That the Department provide such other and further relief as may be necessary or appropriate.

Respectfully submitted by,  
BAY STATE GAS COMPANY  
By its attorneys,

NISOURCE CORPORATE SERVICES

RICH, MAY, A PROFESSIONAL  
CORPORATION

Patricia French / DMB

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Dated: August 15, 2008

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 04-39

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding in accordance with the requirements of 220 CMR 1.05(1) (Department's Rules of Practice and Procedure).

Dated at Boston, Massachusetts this 15<sup>th</sup> day of August 2008.

*Emmett E. Lyne / DMB*  
Emmett E. Lyne  
Counsel

Of Counsel for

Bay State Gas Company

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

In the Matter of

Bay State Gas Company

D.T.E. 04-39

DIRECT TESTIMONY

of

DEREK M. BUCHLER

August 15, 2008

BAY STATE GAS COMPANY

D.T.E. 04-39

Direct Testimony of  
DEREK M. BUCHLER

**Introduction**

Q: Please state your full name, address, and position with Bay State Gas Company (“Bay State” or the “Company”).

A: My name is Derek M. Buchler and my business address is 300 Friberg Parkway, Westborough Massachusetts. I am the Manager of the Company’s Demand Side Management (“DSM”) department.

Q: Please briefly describe your educational and your professional background.

A: I hold a Bachelor of Science Degree in Mechanical Engineering from Northeastern University. I have been employed at the Company since February of 1997. I am a member of the American Society of Heating Refrigeration and Air-conditioning Engineers, a senior member of the Association of Energy Engineers, as well as a member of the Association of Energy Services Professionals. Prior to becoming the DSM department manager, I held the position of Multifamily/Commercial & Industrial Demand Side Management Program Manager. In the past I have also represented the Company by participating in the Massachusetts Board of Building Regulations and Standards Energy Advisory Committee that developed and completed the 6<sup>th</sup> Edition of Massachusetts Commercial Energy Code for New Construction.

Prior to joining Bay State, I was employed by ThermoPower, Inc, as a research and development energy engineer for 10 years. As an engineer, I performed research and prototype field tests on emerging, high efficiency, technologies used in space conditioning and energy management for various utilities and public entities throughout the country.

Prior to my experience at ThermoPower, I was employed for two years at Goldberg-Zoino & Associates, Inc. as field engineer working in the field of environmental remediation. While there I supervised waste remediation field projects in the public and private sectors, conducted pilot system field investigations, waste remediation laboratory tests and designed mobile wastewater treatment plants with a team of engineers.

Q: Please summarize your professional responsibilities at Bay State.

A: As Manager of the Company's DSM department, I am responsible for the overall design, development, deployment, delivery, tracking, evaluation and reporting of the Company's residential, commercial and industrial energy efficiency programs, including market transformation activities, in compliance with state-mandated and regulatory guidelines. I am responsible for the financial reporting of the energy efficiency programs including cost recovery and lost margins Conservation Charge ("CC") calculations. I also currently serve as the Company's commercial and industrial energy efficiency program manager, and as such interact with customers on a regular basis. Finally, I am responsible for coordinating with the Company's Demand Forecasting Group to integrate demand-side with supply-side planning.



Q: Have you testified as a witness in any other proceedings involving the Company before the Department of Public Utilities (“Department”)?

A: Yes, I have testified in the Company’s Residential Conservation Services (“RCS”) hearings and previous DSM proceedings.

Q: Has this filing been prepared by you or under your supervision?

A: Yes

### **Purpose of Testimony**

Q: Please describe the purpose of your testimony and provide an overview of the Company’s energy efficiency plan proposal.

A: The purpose of my testimony is to present to the Department the Company's proposed plan for expanding funding for its residential and commercial and industrial (“C&I”) energy efficiency efforts for the upcoming period of September 1, 2008 through December 31, 2009 in response to the Department’s recent directives. My testimony and the supporting schedules filed herewith demonstrate the cost-effectiveness of the Company’s proposal and that the implementation of the energy efficiency programs proposed herein will result in increased opportunities for customers. More specifically, as explicitly required in the Department’s Letter of July 25, 2008 regarding the need to increase funding for residential programs for the upcoming heating season, the Company proposes expanded funding for the Company’s residential energy efficiency efforts that are operated pursuant to the Settlement Agreement approved in Bay State Gas Company, D.T.E. 04-39 (September 13, 2008) (the “D.T.E. 04-39 Settlement”). Further, Bay State’s filing reflects the Company’s desire to enhance its C&I efforts in addition to expanding funding for residential heating programs. In this regard, the Company’s filing also

directly follows up on the Department's August 7, 2008 request for proposed energy efficiency plans for effect during the interim period after the April 30, 2009 expiration of the D.T.E. 04-39 Settlement pre-approval period and before January 1, 2010 (which is the date that new, three-year energy efficiency programs are to be launched in accordance with the Act). Bay State's Petition is consistent with established Department practice and will allow for the offering of well-operating, pre-approved programs (with enhancements based on experience and current market conditions) -- without interruption in program delivery -- as the Company works in CY 2009 with interested parties to develop its energy efficiency plan for effect on January 1, 2010 as mandated by the Act. The Company is also providing this Petition addressing all of calendar year 2009 (CY-2009) at the same time as it addresses the Department's request for expanded residential funding for 2008-2009 heating season for administrative efficiency and to satisfy all Department directives in a comprehensive, coordinated and timely fashion. Approval of this Petition through CY 2009 will allow the proposed program enhancements to gain momentum and acceptance in the marketplace (by both contractors and customers), and thereby increase the likelihood of success in achieving higher degrees of energy efficiency/savings and a greater number of participants.

### **Background of Existing Programs**

Q: Please provide background information regarding the Company's energy efficiency programs.

A: By way of background, the Company currently operates comprehensive energy efficiency programs targeting the residential and C&I customer sectors. These programs are operated pursuant to the D.T.E. 04-39 Settlement. The D.T.E. 04-39 Settlement built

upon the energy efficiency programs developed and approved in the Company's previous DSM settlements in Bay State Gas Company, D.T.E. 01-27 (July 19, 2001 (“D.T.E. 01-27 Settlement”)) and extended on an interim basis by the Department’s April 21, 2004 approval of the Company’s Motion for the Interim Continuation of Existing Energy Efficiency Programs (“Interim Extension”) filed on March 30, 2004. The D.T.E. 01-27 Settlement built upon the energy efficiency programs developed and approved in the Company's previous DSM settlements: Bay State Gas Company, D.P.U. 91-272 (“D.P.U. 91-272 Settlement”); Bay State Gas Company, D.P.U. 95-117 (the “D.P.U. 95-117 Settlement”); Bay State Gas Company, D.P.U. 96-76 (“D.P.U. 96-76 Settlement”); and Bay State Gas Company, D.P.U. 96-98 (“D.P.U. 96-98 Settlement”).

Q: In implementing the D.T.E. 04-39 Settlement, has the Company kept parties abreast of its efforts?

A: Yes. The Company has kept the Department and other interested parties apprised of its progress in implementing its energy efficiency programs pursuant to the D.T.E. 04-39 Settlement in a series of periodic reports as required under such Settlement, including six-month, nine-month and annual reports, all in the templates established in the D.T.E. 04-39 Settlement. Indeed, the Company has used this annual reporting template in Attachment A accompanying my testimony in order to set forth its proposal for expanded funding and program enhancements for the upcoming heating season and through CY-2009. The Company’s residential and C&I programs have been well-accepted and the Company is coordinating implementation of its efforts targeting low-income customers with the non-profit, weatherization assistance program agencies in its service territories, all as provided in the D.T.E. 04-39 Settlement.

### **Procedural Background**

Q: Why is the Company proposing expanded funding in this filing?

A: On July 16, 2008, the Department of Energy Resources (“DOER”) filed a letter with the Department requesting that the Department consider an immediate increase in funding for energy efficiency programs targeted at residential heating end-uses, stating that “we must do all we can to help residents cope with what will likely be high heating bills this winter.” The Department agreed that there is an urgent need to expand funding for existing residential gas and electric efficiency programs in order to respond to the potential for high heating costs in the coming months. Accordingly, by letter dated July 25, 2008, the Department required that all energy efficiency Program Administrators increase spending for residential heating programs effective as soon as feasible, and covering the 2008 winter season (the “July 25, 2008 Letter”). Additionally, the Department held a technical conference on July 29, 2008 to discuss issues and concerns that the Program Administrators, the Attorney General and non-utility parties may have with implementing funding increases. Following this Technical Conference by Memorandum of the Hearing Officer dated August 1, 2008, the Department required that the Company submit its proposal for expanded funding for residential programs on or before August 15, 2008. The Company has filed its Petition in accordance with these directives. The Company’s Petition and the attached materials contain the Company’s proposed expanded program budgets, which will allow for the implementation of a maximum achievable level of cost-effective expenditures on residential heating programs for the remainder of the 2008-2009 heating season and beyond. As noted above and detailed below, Bay State is also using the unique opportunity accorded by this requirement to address other CY-2009 energy efficiency matters in a comprehensive and

coordinated fashion.

Q: Please provide more detail regarding the procedural background of the Company's proposal.

A: In accordance with the Department's September 13, 2004 approval of the D.T.E. 04-39 Settlement, the current pre-approval period for the Company's energy efficiency programs ends on April 30, 2009. The Act requires all gas and electric distribution companies and municipal aggregators (together, "Program Administrators") to file three-year energy efficiency plans for new programs starting in 2010. This process begins with a filing by Program Administrators of their energy efficiency plans with the newly established Energy Efficiency Advisory Council by April 30, 2009.<sup>1</sup> In its recent August 7, 2008 letter to Program Administrators (the "August 7, 2008 Letter"), the Department stated that it expects that Program Administrators will use program implementation in 2009 as a transition year leading into the implementation of expanded energy efficiency programs under the Act, beginning in 2010.

Q: Please continue.

A: In light of these factors, the Department found a need to expedite the process of filing and review of all 2009 energy efficiency plans. Accordingly, in its August 7, 2008 Letter, the Department required Program Administrators, such as the Company, that oversee multi-year gas energy efficiency plans that expire in April 2009, to file proposals to extend current plans through December 31, 2009, with the Department by no later than December 1, 2008. In its Petition, the Company is directly responding to the Department's August 7, 2008 Letter and is seeking an extension of its currently-approved

energy efficiency efforts through CY-2009, along with expanded funding and implementation enhancements for its residential and C&I energy efficiency efforts, all as described in my testimony and supporting schedules.

**Key Benefits of the Company's Proposal**

Q: Does the Company's proposal provide benefits for customers?

A: Yes. The Company notes that it fully expects to be engaged in productive planning discussions with interested parties (such as the DOER, the Attorney General, and the low-income alliance, LEAN) prior to any filing under the Act for effect on January 1, 2010. However, it is likely that, even if such efforts result in a settlement or a near consensus proposal, the Department would not be able to act on such proposal prior to April 30, 2009, which is the date the D.T.E. 04-39 Settlement pre-approval period ends. As work on a plan for effect on January 1, 2010 continues, approval of Bay State's Petition will ensure that the Company is able to continue to offer its energy efficiency efforts on an uninterrupted basis during CY-2009. Specifically, the Company notes the following considerations in support of its request for continuation of programs through CY-2009:

- (a) Throughout CY-2009, the Company proposes to continue its collaboratively-developed, Settlement-based residential, low-income, C&I and market transformation programs. Accordingly, approval of the Petition will not result in diminished services to customers during CY-2009. Moreover, the program enhancements described in Attachment A, Schedules 2, 3 and 4 are the type of enhancements expressly contemplated in the D.T.E. 04-39 Settlement and are based on in-the-field experience, work with other LDCs, low-income agencies, DSM

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<sup>1</sup> The Act requires Program Administrators to file the first three-year energy efficiency plans with the Department

contractors and the DOER--and will further enhance service to customers. All of the above also set in motion the initial steps of developing and expanding comprehensive energy efficiency programs as contemplated in the Act.

- (b) Extension of current programs throughout CY-2009 is further warranted given that the energy efficiency programs operated pursuant to the D.T.E. 04-39 Settlement (including regional market transformation initiatives) are currently operating well in the field and the Company, working with the low-income weatherization assistance provider network, has the infrastructure in place to continue such efforts during CY-2009.
- (c) As set forth in Attachment A, Schedule 6, and as I discuss further below, the Company's energy efficiency effort remains robustly cost-effective.

Q: Is the Company's proposal consistent with Department precedent?

A: Yes. The Company's request for continuation of efforts throughout CY-2009 is consistent with (a) the Department's August 7, 2008 letter; (b) established DSM practice before the Department and (c) the Department's long-standing goal of continuity of DSM services. *See e.g. The Berkshire Gas Company*, D.T.E. 04-38 (Stamp Order of April 21, 2004 Approving Motion for Interim Continuation), *The Berkshire Gas Company*, D.T.E. 01-29 (Stamp Order of April 26, 2001 approving Motion for Interim Continuation); *Fall River Gas Company*, D.T.E. 01-30 (Stamp Order of April 26, 2001 approving Motion for Interim Continuation); *NSTAR Gas Company*, D.T.E. 01-26 (Stamp Order of April 26, 2001 approving Motion for Interim Continuation); *Commonwealth Gas Company*, D.T.E. 99-86 (Letter Order of August 2, 2001 approving Motion for Interim Continuation); *The Berkshire Gas Company*, D.T.E.

98-93 (August 2, 2000 Letter Order approving Motion for Interim Continuation); Commonwealth Gas Company, D.T.E. 99-86 (Stamp Order of December 29, 1999 approving Petition for Interim Extension); Commonwealth Gas Company, D.T.E. 98-92 (Stamp Order of October 28, 1998 Approving Motion for Interim Continuation); Fall River Gas Company, D.P.U. 97-62 (Stamp Order of June 26, 1997 approving Motion for Interim Continuation); Commonwealth Gas Company, D.P.U. 94-128 (Letter Order of October 26, 1995 approving Motion for Interim Continuation); The Berkshire Gas Company, D.P.U. 94-168 (September 26, 1994 approval of Motion for Interim Continuation); *see also* Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 91-234-B at 37 (1994) (program continuity is an important goal in utility DSM efforts). *See also* Cambridge Electric Company/Commonwealth Electric Company, D.P.U. 92-218, at 18 (1993). The Company is filing this petition at this time in order to allow the Department adequate time to review and approve this proposal well prior to the expiration of the current D.T.E. 04-39 Settlement pre-approval period and given the unique opportunity to coordinate its CY-2009 filing in a comprehensive, administratively efficient and cost-effective way with the mandatory 2008-2009 heating season funding increases.

**Proposed Budgets and Cost Recovery for Effect Through CY-2009**

Q: Please review the budgets and cost recovery mechanisms proposed by the Company.

A: A key element of the Company's proposal is the maintenance of the existing energy efficiency programs (including market transformation initiatives) approved in the D.T.E. 04-39 Settlement through CY-2009 at reasonably higher program expenditure levels than are currently approved in light of current market conditions and the increased demand for energy efficiency services. Attachment A, Schedule 5 provides the details of the levels of expenditures that the Company proposes be in effect for the period of September 1, 2008



through December 31, 2009. In particular, Attachment A demonstrates several important characteristics of the Company's proposal:

- (a) except as noted in the Schedules 2, 3 and 4 to Attachment A, the design and rebate levels for existing energy efficiency programs will remain unchanged through CY-2009;
- (b) the Company is proposing to increase certain residential and C&I rebate levels in order to make it easier for customers interested in conserving energy to participate in the Company's programs by lowering the financial barriers that currently prohibit certain customers from implementing energy efficiency products and services;
- (c) the overall level of funding for energy efficiency program activities during the period of September 1, 2008 through December 31, 2009 is higher than, but reasonably coordinated with, the current Program Year Five level of funding as approved in the D.T.E. 04-39 Settlement;
- (d) the Company will continue to work with the low-income delivery network in the delivery of its low-income energy efficiency program;
- (e) the methodology for calculating financial incentives and lost margin recovery (subject to the Rolling Period Methodology) developed and approved in the D.T.E. 04-39 Settlement and the method for determining financial incentives that was developed and approved in the Department's generic proceeding D.T.E. 98-100 and adopted in the D.T.E. 04-39 Settlement will continue to be in effect for all savings achieved through CY-2009;
- (f) costs incurred in implementing and delivering the Company's energy efficiency programs through CY-2009 will continue to be recovered through the Company's existing, sector-specific Conservation Charge ("CC") mechanism, which is a

component of the Local Distribution Adjustment Clause (“LDAC”) and the applicable Local Distribution Adjustment Factor (“LDAF”). Accordingly, while CC decimals will tend to rise once all costs and reconciliations are factored in, approval of this Petition will not result in any undue billing impacts for the Company's customers and increased services will be available. Specifically, the annual cost to an average residential customer, as filed in the Company’s June 30, 2008 filing, for all applicable programs was \$15.26. If this Petition is approved, the annual cost to a residential customer will be \$18.91, a net increase of \$3.65 per year, or an additional \$0.30 per month on average.

#### **Detailed Discussion of Attachment A and Schedules 1-7**

Q: How was Attachment A developed?

A: The Company emphasizes that Attachment A is expressly patterned on the collaboratively-developed Annual Report template set forth in the D.T.E. 04-39 Settlement and successfully used for the past four years by the Company and numerous other Program Administrators. Use of this format should enhance and facilitate the Department’s review. In particular, Attachment A contains the following schedules, each of which schedules is in the format established in the D.T.E. 04-39 Settlement:

Schedule 1 – Actual Program Expenditures Participants and Savings for the period May 1, 2007 through April 30, 2008. This schedule has not changed since the Company’s June 30, 2008 Annual Report except for the correction of a typographical error in Line 10, Participation column.

Schedule 2 – Residential Energy Efficiency Program Changes. This schedule updates the

schedule filed in the Company's June 30, 2008 Annual Report and sets forth the residential program enhancements proposed by the Company, which in general increase the level of Company rebates in well-established, pre-approved programs in order to facilitate participation for the Company's many interested customers. Many of the program enhancements are based on discussions with DOER, other LDCs, DSM contractors and in-the-field experience. Because cost-effectiveness is measured using the D.T.E. 98-100 Total Resource Cost Test, which factors in all program costs regardless of the amount underwritten by the sponsoring utility, increasing such rebate levels does not negatively impact cost-effectiveness.

Schedule 3 – Low-Income Energy Efficiency Program Changes. This schedule updates the schedule filed on June 30, 2008 and sets forth the residential low-income program enhancements proposed by the Company, which in general increases the pool of customers eligible to participate in the program. This program enhancement is based on discussions with DOER, other LDCs, the CAP agencies in the Company's service territory, DSM contractors and in-the-field experience. Because cost-effectiveness is measured using the D.T.E. 98-100 Total Resource Cost Test, which factors in all program costs regardless of the amount underwritten by the sponsoring utility, increasing such rebate levels does not negatively impact cost-effectiveness.

Schedule 4 – C&I Energy Efficiency Program Changes. This schedule updates the schedule filed in the Company's June 30, 2008 Annual Report and sets forth the C&I and master-metered multifamily program enhancements proposed by the Company, which in general increase the level of Company rebates in well-established pre-approved programs in order to facilitate participation for the Company's many interested customers. Because cost-effectiveness is measured using the D.T.E. 98-100 Total Resource Cost Test, which

factors in all program costs regardless of the amount underwritten by the sponsoring utility, increasing such rebate levels does not negatively impact cost-effectiveness.

Schedule 5 – Energy Efficiency Forecasted Program Budget for the Period May 1, 2008 through December 31, 2009. This schedule updates the schedule filed with the Company's June 30, 2008 Annual Report and provides for expanded funding for the Company's residential heating efforts consistent with the Department's requirements for the upcoming heating season and throughout CY-2009, as well as expanded C&I funding. The increased funding levels set forth in Schedule 5 were determined after the Company reviewed historic data, held informal discussions with interested parties and other LDCs, reviewed infrastructure constraints and examined quality control concerns. As discussed at the July 29, 2008 Technical Conference, the Company notes that achievable savings are necessarily limited by constraints in program delivery infrastructure (e.g., the level of qualified contractors in the field) and the need to maintain quality and safety controls for an expanded level of program activity. The proposed increase represents an annualized increase of twenty four percent (24%) of the residential and low-income budget set forth in Company's June 30, 2008 Annual Report and thirty two percent (32%) of the C&I budget.

Schedule 6 – Benefit Cost Ratios (BCRs) by Program for the Period May 1, 2008 through December 31, 2009. Given the very robust benefit cost ratio of 3.82 for the Company's energy efficiency effort set forth in the Company's June 30, 2008 Annual Report, this schedule has not been updated. The incremental benefit of achieving greater precision in the projected BCR did not, in the Company's judgment, merit the expense of retaining its outside vendor and preparing a new BCR analysis for this filing (which filing is being conducted on an expedited basis consistent with the Department's August

1, 2008 procedural schedule). The increased funding for measures proposed herein for programs already found to be cost-effective in the D.T.E. 04-39 Settlement would not have a material negative impact on the numbers set forth in Schedule 6 and may serve to increase BCRs somewhat because increased savings will be achieved and the Company has not proposed proportionately higher expenditures in administrative, marketing and evaluation costs. The Company emphasizes that, because the Total Resource Cost test mandated by the Department in D.T.E 98-100 is used for screening (which test accounts for all program implementation costs regardless of the party making the payment), increasing rebate levels does not negatively effect cost-effectiveness in any material way; and should lead to enhanced participation and greater savings.

Schedule 7 – Performance Incentives for the Period May 1, 2008 through December 31, 2009. The Company has proportionately adjusted forward-looking performance incentives to reflect the expanded funding proposed herein. These forward-looking goals for the period ending December 31, 2009 are set forth in Schedule 7. The Company notes that, as required by the D.T.E. 04-39 Settlement, this performance incentive utilizes the Department's D.T.E. 98-100 Final Guidelines with respect to incentives.

### **Other Matters**

Q: What other elements are contained in the Company's filings?

A: The Company is seeking to be afforded the discretionary flexibility, through CY-2009, to expend up to ten percent (10%) in excess of the amounts set forth in Attachment A without the need for advance Department approval, in the event market conditions allow for such additional expenditure. This proposed flexibility should heighten administrative efficiency

and, at the same time, preserve the Department's need to oversee implementation and protect against excessive billing impacts.

Q: Do you have an estimate with respect to the dollar savings on monthly bills that residential participants in the Company's residential energy efficiency programs are expected to realize?

A: Actual dollar savings are dependent on numerous factors, including, for example, usage, measures installed, timing of installation, seasonality, weather, and the commodity cost of gas. A reasonable estimate of annual dollar savings that a typical residential customer on the Company's Residential Heating Rate, electing to participate in the program, and eligible for insulation measures would be \$332 per year. The majority of those savings would occur during the winter heating months when bills are typically higher than in the summer, non-heating months. I emphasize that this is an estimate, subject to many factors and is presented in order to be directly responsive to the Department's July 25, 2008 Letter. Actual savings could be more or less.

Q: Has the Company addressed the other matters set forth in page 2 of the July 25, 2008 Letter?

A: Yes. To summarize:

- The Company's programs targeting residential heating uses are set forth in Attachment A, Schedules 1 and 5.
- The additional dollars the Company proposes to spend through CY-2009 are set forth in Attachment A, Schedule 5 and in my testimony, which describes our proposed twenty four percent (24%) annualized increase for residential programs.
- The main constraints that limit spending, in particular infrastructure limitations, are

set forth above in my testimony.

- As noted in my testimony, and as reflected in Attachment A, Schedule 5, the Company projects increasing participation in its residential weatherization and low-income programs by twenty percent (20%).
- Energy savings achieved should be increased by approximately twenty percent (20%).
- Estimated monthly dollar savings for residential participants are set forth above in my testimony.
- Cost-effectiveness is set forth in Attachment A, Schedule 6 and is also addressed above in my testimony.
- Cost recovery is directly addressed in my testimony and remains unchanged from the well-functioning methodology agreed to in the D.T.E. 04-39 Settlement.

Q: Does this conclude your testimony?

A: Yes, it does.

#### ATTACHMENT A

#### PROPOSED EXPANDED FUNDING AND PROGRAM ENHANCEMENTS FOR SEPTEMBER 1, 2008 THROUGH DECEMBER 31, 2009

#### SCHEDULE 1 THROUGH SCHEDULE 7

# Attachment A



**Bay State Gas Company, D.T.E. 04-39**  
**Energy Efficiency Program - Annual Status Report**  
**May 1, 2007 through April 30, 2008**

**Residential**

line	PROGRAM/INITIATIVE	Program Planning & Administration Expenditures	Program Marketing Expenditures	Customer Incentives Expenditures	Program Implementation Expenditures	Evaluation & Market Research Expenditures	Total Expenditures	No. of Rebates or Participants	Total Annual Savings (Therms)
	<b>Residential</b>								
1	ENERGY STAR Thermostat Rebate	1,571	7,573	31,958	3,151	145	44,398	1,391	104,201
2	ENERGY STAR Homes	5,035	9,037	53,026	44,122	463	111,684	217	65,426
3	ENERGY STAR Windows	6,285	12,797	79,012	7,187	2,628	107,909	8,694	17,040
4	High Efficiency Heating Rebate	24,513	29,119	537,730	10,542	2,255	604,159	1,374	231,600
5	High Efficiency Water Heating Rebate	2,263	6,951	119,610	2,478	208	131,510	412	32,058
6	Weatherization	45,747	101,363	368,591	83,886	4,248	603,836	1,056	131,480
7	<b>Total Residential</b>	85,416	166,839	1,189,927	151,367	9,948	1,603,496	13,144	581,805

**Low-Income**

line	PROGRAM/INITIATIVE	Program Planning & Administration Expenditures	Program Marketing Expenditures	Customer Incentives Expenditures	Program Implementation Expenditures	Evaluation & Market Research Expenditures	Total Expenditures	Participation	Total Annual Savings (Therms)
	<b>Low-Income</b>								
	Residential	81,206	50,207	648,199	233,844	0	1,013,456	323	109,146
9	<b>Total Low-Income</b>	81,206	50,207	648,199	233,844	0	1,013,456	323	109,146

**Commercial & Industrial**

line	PROGRAM/INITIATIVE	Program Planning & Administration Expenditures	Program Marketing Expenditures	Customer Incentives Expenditures	Program Implementation Expenditures	Evaluation & Market Research Expenditures	Total Expenditures	Participation	Total Annual Savings (Therms)
	<b>Commercial &amp; Industrial</b>								
10	Traditional or Custom	54,492	3,902	2,260,129	417,415	5,013	2,740,950	178	1,362,076
11	Infrared Rebate	2,486	2,836	1,000	354	229	6,905	2	1,496
12	ENERGY STAR Thermostat	249	415	993	145	23	1,824	40	3,000
13	High Efficiency Heating Rebate	1,517	2,151	27,324	615	140	31,745	76	12,520
14	High Efficiency Water Heating Rebate	298	459	0	40	27	824	15	1,170
15	Efficient Food Service Equipment	1,591	2,003	1,000	223	146	4,964	2	1,670
16	<b>Total C&amp;I</b>	60,632	11,766	2,290,445	418,791	5,578	2,787,212	313	1,381,932
17	<b>COMPANY TOTALS</b>	227,253	228,812	4,128,572	804,002	15,525	5,404,164	13,780	2,072,883

## Bay State Gas Company, D.T.E. 04-39 Energy Efficiency Program Changes

### Residential Programs

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
<b>Combined High Efficiency Space and Water Heating Rebate</b>	<p>A \$1,000 mail-in rebate for high efficiency, hot water boilers with a minimum 90% AFUE and one of the following</p> <p>a \$300 mail-in rebate for high efficiency, indirect-fired water storage tank connected to a high efficiency boiler, 30-75 gals</p> <p>or</p> <p>A \$300 mail-in rebate for high efficiency, on-demand water heater with a minimum 0.82 Energy Factor and no standing pilot.</p>	<p>The Company and GasNetworks plan to add a new rebate for combined high efficiency space conditioning and water heating units.</p> <p>The purpose is to recognize the increased availability of products from manufacturers that offer one piece of equipment that can perform more than one function within the same cabinet or enclosure.</p> <p>Qualifying Equipment:</p> <p>A high efficiency, forced hot water boiler with a minimum 90% AFUE and the ability to generate potable hot water on demand with a built-in domestic hot water heat exchanger and without the use of external components. The maximum storage of hot water will be less than 2 gallons within the unit. Most of these units will incorporate what is known in the industry as “domestic hot water priority” whereby they will work to satisfy the space conditioning load only and until there is a demand for domestic hot water. When there is a call for domestic hot water, the unit will switch into a mode of operation where it puts all consumed energy into generating potable hot water until the demand for hot</p>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
		<p>water ceases. At that time, the unit will return to space conditioning mode.</p> <p>These types of units have all the energy benefits of two individual pieces of equipment contained in one mechanical unit. (low/no standby losses, no cycling losses for domestic hot water, continuous hot water supply when needed, etc.)</p> <p>Qualifying models will be identified as follows:</p> <ul style="list-style-type: none"><li>• Must have AFUE rating found in GAMA directory or appear on the ENERGY STAR web site as a qualifying boiler with a minimum AFUE of 90%.</li><li>• Additionally, the model number or model designator must clearly identify a water heating option or feature as part of the standard unit and without additional EXTERNAL components.</li></ul> <p>Units without an AFUE rating and/or not listed on one of the two resources will not qualify for the combined unit rebate.</p> <p>The proposed rebate level will be \$1,300</p> <p>The amount of energy savings for the combined unit is assumed to be 220 therms per year per unit installed and is based upon the combined savings or a high efficiency boiler (141 therms) plus the savings generated by an on-demand water heater (79 therms).</p>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
<b>High Efficiency Storage Water Heating Rebate</b>	Not currently offered in the Company's energy efficiency programs	<p>In April of 2008, the U.S. Department of Energy (DOE) announced new ENERGY STAR® criteria for water heaters, the first in the history of the program. The first phase of the ENERGY STAR criteria goes into effect January 1, 2009 and requires qualifying gas storage water heaters to have a minimum Energy Factor (EF) of 0.62 - or they must be 6.9 percent more efficient than the Federal Standard.</p> <p>In an effort to acknowledge the benefits of a higher efficiency storage type water heater and in support of the new ENERGY STAR storage water heater specification, the Company and GasNetworks plan to add a new rebate program for storage water heaters with the minimum EF of .62. It is expected that these water heaters will carry the ENERGY STAR logo beginning in January 2009. It is also expected that there will be a national campaign promoting the labeling of ENERGY STAR qualified water heaters.</p> <p>The proposed rebate level has not been determined at this time. Prior to January 1, 2009, the Company and GasNetworks plan to analyze the benefits relative to the cost of these new ENERGY STAR storage water heaters and determine how it can best influence the decision of future storage water heater purchases with an appropriate rebate level.</p>
<b>Residential Budgets &amp; Goals (excluding low-income)</b>	The Residential programs were administered and offered to customers as presented in the Company's Final Report (PY 3) filed on June 29, 2007.	<ul style="list-style-type: none"> <li>• To better match the demand for energy efficiency programs and services, the Company has modified its individual Residential programs.</li> <li>• Budgets and goals are based on those presented</li> </ul>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
		<p>in the Company's June 29, 2007 filing, modified to respond the Department's request to increase expenditures, better reflect anticipated program activity and the [proposed] enhanced incentive structures.</p> <ul style="list-style-type: none"> <li>• The Company will offer air sealing as an additional custom measure. Air sealing will be installed based upon BPI standards and saving calculations.</li> <li>• Residential program goals have been adjusted based on available allocated budgets. The custom program goal reflects increased measure costs, anticipated increased marketing and enhanced incentive structures.</li> </ul>
<b>Residential Weatherization</b>	<ul style="list-style-type: none"> <li>• 50% financial incentive to homeowners on the Company's residential heating rate towards cost effective weatherization measures</li> <li>• 75% financial incentive to tenants on the Company's residential heating rate towards cost effective weatherization measures</li> <li>• Maximum incentive = \$1,500</li> </ul>	<ul style="list-style-type: none"> <li>• 75% financial incentive to homeowners on the Company's residential heating rate towards cost effective weatherization measures</li> <li>• 100% financial incentive to tenants on the Company's residential heating rate towards cost effective weatherization measures</li> <li>• Maximum Incentive = \$2,000</li> </ul>
<b>Heat Loan</b>	<ul style="list-style-type: none"> <li>• Customers were eligible to receive either a 0% HEAT loan up to \$10,000 <u>or</u> incentives and rebates for eligible program measures.</li> </ul>	<ul style="list-style-type: none"> <li>• The Heat Loan program will be modified to enable customers to receive BOTH the 0% loan up to \$10,000 and incentives and rebates for eligible program measures. This is consistent with the previously legislated Heat Loan offer in 2006 and the recently enacted Green</li> </ul>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
		Communities Act Heat Loan provision. Heat Loan costs would be tracked and reported separately for further consistency.

## **Bay State Gas Company, D.T.E. 04-39 Energy Efficiency Program Changes**

### **Low Income Programs**

<b>Program Name</b>	<b>Program Year (2007)</b>	<b>Modifications Planned for Program Year (2008-2009)</b>
<b>Residential Low-Income Single-Family</b>	<ul style="list-style-type: none"><li>The low-income program was administered and offered to customers as contemplated in the settlement agreement between Bay State Gas and the Low Income Energy Affordability Network relating to low-income program delivery modifications and enhancements (consistent with the D.T.E. 04-39 Settlement).</li></ul>	<ul style="list-style-type: none"><li>The low-income budget will increase due to the rollover of funds from Years 1-4 as described in the settlement agreement between Bay State and the Low-Income Energy Affordability Network (“LEAN”), and anticipated increase in customers seeking low-income services, and increased marketing efforts.</li><li>The Company, as described in its May 29, 2008 letter to the Department, will participate in the Micro-Combined Heat and Power Pilot Initiative, “freewatt” systems, with LEAN. The \$36,000 co-funding for the freewatt systems is included in this year’s budget.</li><li>The forecasted savings for the program has been modified to reflect higher than anticipated measure costs, increases in budgets, and anticipated higher participation rates. The low-income program remains cost effective with the modified savings goal.</li></ul>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
	<ul style="list-style-type: none"><li>• Eligibility: customers on the Company's low-income heating rate, subject to income-based protection from shut-off, and/or those verified by the CAP agencies with incomes at or below 60% of Commonwealth's median income level.</li></ul>	<ul style="list-style-type: none"><li>• Increased Eligibility: customers on the Company's low-income heating rate, customers subject to income-based protection from shut-off, and/or those verified by the CAP agencies with incomes at or below than 80% of Commonwealth's median income level.</li><li>• The Company anticipates and will request that those customers eligible for the low income program and that cannot be served by the CAP in a reasonable amount of time (to be mutually agreed upon by all stakeholders, including LEAN) due to heightened demand for services or are categorized as low priority due to DOE prioritization guidelines, will be referred by the CAP to the Company such that they may be served by the Company's residential non-low income vendor. Said referred customers will be offered measures at the low income incentive levels, i.e. 100% cost of the installed measure paid for by the Program.</li></ul>



## Bay State Gas Company, D.T.E. 04-39 Energy Efficiency Program Changes

### Commercial & Industrial Programs

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
<b>Combined High Efficiency Space and Water Heating Rebate</b>	<p>A \$1,000 mail-in rebate for high efficiency, hot water boilers with a minimum 90% AFUE and one of the following</p> <p>a \$300 mail-in rebate for high efficiency, indirect-fired water storage tank connected to a high efficiency boiler, 30-75 gals</p> <p>or</p> <p>A \$300 mail-in rebate for high efficiency, on-demand water heater with a minimum 0.82 Energy Factor and no standing pilot.</p>	<p>The Company and GasNetworks plan to add a new rebate for combined high efficiency space conditioning and water heating units.</p> <p>The purpose is to recognize the increased availability of products from manufacturers that offer one piece of equipment that can perform more than one function within the same cabinet or enclosure.</p> <p>Qualifying Equipment:</p> <p>A high efficiency, forced hot water boiler with a minimum 90% AFUE and the ability to generate potable hot water on demand with a built-in domestic hot water heat exchanger and without the use of external components. The maximum storage of hot water will be less than 2 gallons within the unit. Most of these units will incorporate what is known in the industry as “domestic hot water priority” whereby they will work to satisfy the space conditioning load only and until there is a demand for domestic hot water. When there is a call for domestic hot water, the unit will switch into a mode of operation where it puts all consumed energy into generating potable hot water until the demand for hot water ceases. At that time, the unit will return to space conditioning mode.</p>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008-2009)
		<p>These types of units have all the energy benefits of two individual pieces of equipment contained in one mechanical unit. (low/no standby losses, no cycling losses for domestic hot water, continuous hot water supply when needed, etc.)</p> <p>Qualifying models will be identified as follows:</p> <ul style="list-style-type: none"><li>• Must have AFUE rating found in GAMA directory or appear on the ENERGY STAR web site as a qualifying boiler with a minimum AFUE of 90%.</li><li>• Additionally, the model number or model designator must clearly identify a water heating option or feature as part of the standard unit and without additional EXTERNAL components.</li></ul> <p>Units without an AFUE rating and/or not listed on one of the two resources will not qualify for the combined unit rebate.</p> <p>The proposed rebate level will be \$1,300</p> <p>The amount of energy savings for the combined unit is assumed to be 220 therms per year per unit installed and is based upon the combined savings of a high efficiency boiler (141 therms) plus the savings generated by an on-demand water heater (79 therms).</p>

Program Name	Program Year (2007)	Modifications Planned for Program Year (2008)
<b>High Efficiency Storage Water Heating Rebate</b>	Not currently offered in the Company's energy efficiency programs	<p>In April of 2008, the U.S. Department of Energy (DOE) announced new ENERGY STAR® criteria for water heaters, the first in the history of the program. The first phase of the ENERGY STAR criteria goes into effect January 1, 2009 and requires qualifying gas storage water heaters to have a minimum Energy Factor (EF) of 0.62 - or they must be 6.9 percent more efficient than the Federal Standard.</p> <p>In an effort to acknowledge the benefits of a higher efficiency storage type water heater and in support of the new ENERGY STAR storage water heater specification, the Company and GasNetworks plan to add a new rebate program for storage water heaters with the minimum EF of .62. It is expected that these water heaters will carry the ENERGY STAR logo beginning in January 2009. It is also expected that there will be a national campaign promoting the labeling of ENERGY STAR qualified water heaters.</p> <p>The proposed rebate level has not been determined at this time. Prior to January 1, 2009, the Company and GasNetworks plan to analyze the benefits relative to the cost of these new ENERGY STAR storage water heaters and determine how it can best influence the decision of future storage water heater purchases with an appropriate rebate level.</p>

<p><b>High Efficiency Food Service Equipment Rebate</b></p>	<p>A \$1,000 mail-in rebate for high efficiency commercial fryers.</p>	<ul style="list-style-type: none"> <li>• The anticipated participation in this program has not materialized; therefore, the Company has modified its forecasted rebate level and will monitor the results until the end of this program year.</li> </ul>
<p><b>Custom Commercial &amp; Industrial</b></p>	<ul style="list-style-type: none"> <li>• 50% financial incentive to Small C&amp;I (up to 40,000 annual therms consumption) towards the implementation of cost effective energy saving measures, up to \$50,000 maximum incentive</li> <li>• 50% financial incentive to master-metered multifamily customers towards the implementation of cost effective energy saving measures, up to \$50,000 maximum incentive</li> <li>• 50% financial incentive to Large C&amp;I (over 40,000 annual therms consumption) towards the implementation of cost effective energy saving measures, up to \$100,000 maximum incentive</li> <li>• State and Municipal customers participate in either the Small C&amp;I or Large C&amp;I and receive a 50% financial incentive to towards the implementation of cost effective energy saving measures, up to \$50,000 or \$100,000 maximum incentive respectively</li> </ul>	<ul style="list-style-type: none"> <li>• 75% financial incentive to Small C&amp;I (up to 40,000 annual therms consumption) towards the implementation of cost effective energy saving measures, up to \$50,000 maximum incentive</li> <li>• 75% financial incentive to master-metered multifamily customers towards the implementation of cost effective energy saving measures up to \$50,000 maximum incentive</li> <li>• No proposed change to the Large C&amp;I program except for municipal customers as described below</li> <li>• All State and Municipal customers, regardless of size, will receive a 75% financial incentive to towards the implementation of cost effective energy saving measures. Maximum incentives will continue to be \$50,000 for small C&amp;I program participants and \$100,000 for large C&amp;I program participants respectively.</li> </ul>

**Bay State Gas Company, D.T.E. 04-39**  
**2008-2009 Energy Efficiency Forecasted Program Budget**  
**May 1, 2008 through December 31, 2009**

**Residential Detail**

line	PROGRAM/INITIATIVE	Program Planning & Administration	Program Marketing	Customer Incentives	Program Implementation	Evaluation & Market Research	Total
	<b>Residential Program Budgets:</b>						
1	ENERGY STAR Thermostat Rebate	2,663	35,855	68,750	6,644	2,111	116,023
2	ENERGY STAR Homes	8,535	14,596	141,491	72,848	4,194	241,664
3	ENERGY STAR Windows	10,654	44,397	166,667	43,333	1,757	266,808
4	High Efficiency Heating Rebate	41,550	130,600	1,059,668	25,574	22,432	1,279,824
5	High Efficiency Water Heating Rebate	3,835	7,841	200,000	4,569	2,392	218,638
6	Weatherization	77,542	194,841	1,198,019	226,492	35,945	1,732,839
7	<b>Total Residential Budget</b>	144,779	428,130	2,834,594	379,461	68,830	3,855,795

**Low-Income Detail**

line	PROGRAM/INITIATIVE	Program Planning & Administration	Program Marketing	Customer Incentives	Program Implementation	Evaluation & Market Research	Total
	<b>Low-Income Program Budgets:</b>						
8	Residential	176,225	125,000	1,250,012	444,612	8,333	2,004,182
8a	Rollover	0		64,674	12,935	35,000	112,609
9	<b>Total Low-Income Budget</b>	176,225	125,000	1,314,686	457,547	43,333	2,116,791

**Commercial & Industrial Detail**

line	PROGRAM/INITIATIVE	Program Planning & Administration	Program Marketing	Customer Incentives	Program Implementation	Evaluation & Market Research	Total
	<b>Commercial &amp; Industrial Program Budgets:</b>						
10	Traditional or Custom	319,453	166,000	5,150,035	1,270,076	38,633	6,944,197
11	Infrared Rebate	5,068	3,235	75,000	3,225	2,426	88,954
12	ENERGY STAR Thermostat	451	288	6,667	4,000	216	11,620
13	High Efficiency Heating Rebate	3,872	2,471	57,292	5,282	1,853	70,769
14	High Efficiency Water Heating Rebate	845	539	12,500	1,075	404	15,363
15	Efficient Food Service Equipment	3,604	2,300	4,167	2,867	1,725	14,663
16	<b>Total C&amp;I Budget</b>	333,292	174,832	5,305,660	1,286,524	45,258	7,145,567
17	<b>COMPANY TOTALS</b>	<b>654,296</b>	<b>727,962</b>	<b>9,454,940</b>	<b>2,123,532</b>	<b>157,421</b>	<b>13,118,152</b>

**BAY STATE GAS COMPANY - D.T.E. 04-39**  
**Energy Efficiency Program Portfolio**

**Benefit/Cost Ratios by Program**  
**Lifetime Impacts of Measures Installed from 2008 through 2009**

<b>Program Initiative</b>	<b>Measure Life</b>	<b>Benefits (2007\$)</b>	<b>Costs (2007\$)</b>	<b>B/C Ratio</b>
<b>Company-Specific Programs</b>				
- Residential Custom Measures	22	\$ 2,659,638	\$ 1,071,523	2.48
- Residential Low-Income Measures	22	\$ 1,978,593	\$ 1,102,233	1.80
- Small C/I Custom Measures	20	\$ 4,724,465	\$ 1,581,895	2.99
- C/I Multifamily Custom Measures	20	\$ 5,118,749	\$ 1,749,223	2.93
- Large C/I Custom Measures	17	\$ 11,687,882	\$ 1,896,118	6.16
<b>Total Company Specific Programs</b>		<b>\$ 26,169,327</b>	<b>\$ 7,400,992</b>	<b>3.54</b>
<b>Regional GasNetworks Programs</b>				
- ENERGY STAR Thermostat Rebate (residential)	10	\$ 1,229,661	\$ 93,002	13.22
- ENERGY STAR Thermostat Rebate (commercial)	10	\$ 117,706	\$ 10,972	10.73
- ENERGY STAR Homes	25	\$ 2,182,634	\$ 911,712	2.39
- ENERGY STAR Windows	35	\$ 1,894,648	\$ 260,085	7.28
- Residential High Efficiency Heating	20	\$ 4,095,312	\$ 892,699	4.59
- Commercial High Efficiency Heating	20	\$ 231,156	\$ 48,086	4.81
- Residential High Efficiency Water Heating Rebate	20	\$ 542,210	\$ 131,183	4.13
- C&I High Efficiency Water Heating Rebate	20	\$ 33,653	\$ 9,218	3.65
- Infrared Rebate	20	\$ 1,147,114	\$ 98,372	11.66
- Efficient Food Service Equipment	15	\$ 28,455	\$ 10,298	2.76
<b>Total Regional Programs</b>		<b>\$ 11,502,549</b>	<b>\$ 2,465,626</b>	<b>4.67</b>
<b>TOTAL ALL PROGRAMS</b>		<b>\$ 37,671,876</b>	<b>\$ 9,866,618</b>	<b>3.82</b>

Benefit/cost ratios have been calculated in accordance with the guideline established in D.T.E. Docket 98-100 using the Total Resource Cost Test.

**Bay State Gas Company, D.T.E. 04-39  
Energy Efficiency Program**

**Summary of Performance Incentives for the Period May 2008 - December 2009**

	<b>Program/Initiative</b>	<b>Program Budget</b>	<b>Measure Unit</b>	<b>Goal</b>	<b>Incentive Dollars</b>
	<b>Residential Programs:</b>				
1	ENERGY STAR Thermostat Rebate	\$116,023	rebates	2,750	\$6,504
2	ENERGY STAR Homes	\$241,664	certifications	383	\$13,546
3	ENERGY STAR Windows	\$266,808	rebates	16,667	\$14,956
4	High Efficiency Heating Rebate	\$1,279,824	rebates	2,383	\$71,739
5	High Efficiency Water Heating Rebate	\$218,638	rebates	667	\$12,255
6	Weatherization Programs *	\$3,849,630	therms	443,973	\$215,786
	<b>Commercial &amp; Industrial Programs:</b>				
7	Traditional or Custom	\$6,944,197	therms	2,507,357	\$389,248
8	Infrared Rebate	\$88,954	rebates	150	\$4,986
9	ENERGY STAR Thermostat Rebate	\$11,620	rebates	267	\$651
10	High Efficiency Heating Rebate	\$70,769	rebates	133	\$3,967
11	High Efficiency Water Heating Rebate	\$15,363	rebates	42	\$861
12	Efficient Food Service Equipment	\$14,663	rebates	8	\$822
	<b>Total</b>	<b>\$13,118,152</b>			<b>\$735,322</b>

If the Company achieves less than 75% of goal (the Threshold Performance Level), it will receive no incentive for that program.

If the Company achieves 100% of goal (the Design Performance Level), it will receive 100% of the incentive for that program.

If the Company achieves 125% of goal (the Exemplary Performance Level), it will receive 125% of the incentive for that program.

Between 75% and 125% of goal, the incentive will be based on a linear interpolation between the Threshold and Exemplary Performance Levels.

For Non-numeric goals there are no thresholds, company must meet design goal.

After Tax Shareholder Incentive = Average Yield of three-month Treasury Bill/(.60775) x Energy Efficiency Budget)<sup>(1)</sup>

(1) Average Yield of the three-month U.S. T-Bill assumed to be = 3.41%  
and .60775 = 1 minus the effective corporate tax rate.

\* Includes low income weatherization programs